City of Las Vegas

Agenda Item No.: **78.**

AGENDA SUMMARY PAGE
CITY COUNCIL MEETING OF: OCTOBER 7, 2009

DEPARTMENT: CITY MANAGER
DIRECTOR: ELIZABETH N. FRETWELL

☐ **Consent** ☒ **Discussion**

SUBJECT:
ADMINISTRATIVE:

Report on the development status and financing status of the City Hall project, which is proposed to be constructed on real property bounded by Lewis Avenue, Clark Avenue, Main Street and First Street (APNs 139-34-210-007 through -013 inclusive and APNs 139-34-210-019 through -023 inclusive) – Ward 3 (Reese)

Fiscal Impact

☒ **No Impact** ☐ **Augmentation Required**

☐ **Budget Funds Available**

Amount:
Funding Source:
Dept./Division:

PURPOSE/BACKGROUND:
On April 28, 2009, the Nevada Department of Taxation approved a lease-purchase agreement to fund the cost of acquiring, constructing, improving and equipping a new City Hall project in an amount not-to-exceed $267,000,000. On July 1, 2009, staff presented a report concerning the financial feasibility of the City Hall project. Staff would like to update the Las Vegas City Council on the development status and the financing status of the project.

RECOMMENDATION:
Receive report.

BACKUP DOCUMENTATION:
Submitted after Meeting - PowerPoint Presentation by Staff

Minutes:
No motion necessary. A report was given.

SCOTT ADAMS, Chief Urban Redevelopment Officer, and MARK VINCENT, Director of Finance and Business Services, shared in presenting a PowerPoint, a copy of which is made part of the minutes, to update the Council and report on the financial feasibility of a new City Hall. MR. ADAMS indicated that DIMITRI VASILAKIS, Forest City, was present and available to answer any questions of the Councilmembers.

MR. ADAMS detailed Slides 1-7 and 17-19 and MR. VINCENT overviewed Slides 8-16.

MR. ADAMS noted that the design has been completed for bidding purposes; however, staff is still looking at converting more office space into cubicles, but that would not impact pricing. MR. VINCENT added that Item 90 on this agenda pertains to the bond ordinance for financing in the amount of up to $15 million of the Main Street Garage. All three rating agencies confirmed the City's AA ratings.

At the request of COUNCILMAN WOLFSON, MR. ADAMS clarified that financing for the Main Street Garage is separate from financing for City Hall. The site for the Main Street Garage was reviewed from an urban planning standpoint, because it would provide a new gateway into Symphony Park and a portion of needed parking for the performing arts center, even if a new City Hall were not built.

COUNCILMAN BARLOW verified with MR. VINCENT that motorists would connect from the east side of the Union Pacific Railroad (UPRR) property, where City Hall would be located, to the west side of the property via a pedestrian bridge, similar to that on the Strip.

MR. ADAMS commented that the west side of the property already has an improved landing with surface grade parking to meet needs of the Lou Ruvo Brain Institute and to provide part of the parking needs for performing arts center. Streets are in place, but there is not yet any development.

MAYOR GOODMAN expressed his preference for an escalator vs. an elevator; however, MR. VINCENT stated that cost would be the determining factor. The Mayor directed that the cost of both be obtained.

MAYOR GOODMAN confirmed with MR. VINCENT that the contingency funds will bear interest as it is money that is being held.

MR. ADAMS explained for COUNCIMAN BARLOW that the Redevelopment Agency (RDA) contingency is built into soft costs and construction costs, which total approximately $7.5 million. MR. VINCENT added that RDA funding will be used to pay for the new City Hall at the time of paying the Certificates of Participation (COP's) notes. The interlocal agreement between the RDA and the City allows for the use of new RDA tax increment revenue from new redevelopment to pay the COP's notes. MR. ADAMS added that Union Pacific Phase I bonds are tax increment backed.

MR. VINCENT mentioned that one of the issues with the financing schedule is that, depending on the ratings on the COP's credit, the City may want to pursue insurance. A two-week window would allow sufficient time to obtain insurance. Should the ratings come in high enough, insurance will not be necessary and staff can go forward with issuance of the bonds.

Regarding Slide 9, MR. VINCENT explained that the Debt Management Committee (DMC) is formed by state statute to review all debt issuances and approve under certain criteria. The package that was presented by the City for this project is very expensive, assuming a very high rate of 7 percent. As much of the payment as possible on the front end is being deferred until the RDA tax increments start coming in.

MR. VINCENT explained that COP's notes require a non-appropriation clause and is not a general obligation of the City, but that does not mean that the notes could not be repaid with general fund monies. Because it is not considered full-faith credit, a lower bond rating will be given at the time of sale, but yields protection to the City should the economy worsen. COUNCILMAN BARLOW asked if a reduction in rating would affect the City, and MR. VINCENT answered that the City's bond rating is at AA. However, he suspects the City may get AA-, but if it receives below A+, bond insurance for an extra fee should be sought in order ensure AAA rating and increase the ability to sell the bonds. The fee would be factored into the financing cost

In going over the various financial options, MR. VINCENT explained that various scenarios were considered because when the process was started in 2008, the financial markets were in disarray, and the City struggled to sell the RDA bonds. Since then, under the American Recovery Reinvestment Act (ARRA), Build America Bonds (BAB's) are being offered. Underwriters are exploring a method to sell BAB's, which would provide a 35 percent tax credit.

MR. VINCENT stated that in building net payment comparisons, he picked ten years because the call provisions on bond issuance are typically ten years. In other words, the debt cannot be refinanced earlier than ten years without a penalty. Both Natixis and BAB's COP's call for ten-year provisions.

One of the biggest questions for this project has been how a $145 million project with $137 million worth of debt requires the sale of $267 million worth of bonds. The answer is that no interest would be paid by the City for seven years. While the unpaid interest is accumulated, Capital Appreciation Bonds (CAB's) could be considered for sale so that they could appreciate. But this is a very expensive deal at a rate of about 7 percent. Because of the issue of bond appreciation and underlying collateral worth about $150 million, no one would be willing to loan the City $260 million.

Natixis COP carries a variable rate, but there are statutory limitations on variable rates and this caused the City concerns. Subsequently, Natixis offered a fixed rate of about 7.2 percent with an internal variable rate of about 3 percent, allowing the difference to go into an interest reserve that could be used at the end of ten years to buy down the remaining balance. But the variable component is of concern and not preferable.

The BAB's option, with a very low interest rate, explained that the payment structure in years four through seven would be well within the desired $2 million, and the payments would be lower than the DMC approved payments beyond the seventh year.

MR. VINCENT noted that both the Natixis and BAB's options include short-term financing to preserve the recently fiscal stabilization fund. The creation of this fund was very impressive to the bond raters, who felt that some of it could be used to repay the debt, but not more than what staff originally forecasted. To assuage their concern and preserve the stabilization fund, staff decided to consider borrowing short-term monies to help buy down the payment during years 4-7 and pay it back over time. This would secure the BAB's financing, while preserving the stabilization fund.

Regarding the DCM and the BAB's COP's options, MR. VINCENT explained that he forecasted that the lease payments would be made from the general fund because it was the most conservative plan. But the practical reason is that the City had pretty much leveraged all of the RDA tax increment. But this deal has always been considered to not only be a new City Hall, but also the catalyst for additional redevelopment in the area that will incrementally produce more tax increments. But the first step is building a new City Hall.

MR. ADAMS explained for COUNCILMAN BARLOW that one of the main aspects of the BAB's option is that it would keep interest accrual very low so that at the time of refinancing, there would be a lower outstanding balance of about $187.8 million that would require payments of about $12 million, which is very close to the number projected about 1.5 years ago.

MR. VINCENT added that assuming the bottom ten-year numbers could be refinanced at four percent, the new DMC payment would come in at $14.5 million, the GO/Rev payment at $9.7 million, the Natixis payment at $12.3 million payment and the BAB's at $10.9 million. In looking at numbers, the BAB's is a good option; almost as good as GO/Rev bonds.

COUNCILMAN BARLOW asked how much revenue the RDA has generated in the past ten years, to which MR. ADAMS replied that about $25 million in the past five years. He asked if monies would come from the general fund to pay the potential outstanding balance of $52 million if the RDA does not generate more tax increments. MR. VINCENT interjected and said that the Councilmembers have to determine whether they believe the RDA will not generate sufficient tax increments to help pay for the new City Hall payments, pointing out that staff believes it will generate the revenue.

Should the payments have to be made from the General fund, COUNCILMAN BARLOW questioned what that would do to City operations. MR. VINCENT indicated that by year ten, assuming revenue growth of a modest 5-6 percent, the General fund operating budget would be about $700 million. The estimated 1.5 percent payment of about $15.7 million would not be a significant percentage of the $700 million operating budget. But that is the worst-case scenario for the general fund.

MR. ADAMS pointed out that the BAB's option is coming out of the stimulus package. The City did not receive an allocation of recovery zone bonds. Staff is working to get the City established for recovery zone bonds, which would save about another $30 million over the life of the loan.

Many of the high-growth cities did not receive funding at the most recent conference because old data was used. But the new employment data is worse than at the beginning of the economic downturn.

COUNCILMAN REESE asked MR. VINCENT to estimate what the debt might be in ten years. MR. VINCENT answered that the City has the lowest debt ratio, compared to assessed value and to per capita, than any other large government in the state. So the City has tremendous capacity for issuance, but the concern has always been whether it could be paid back given the weak economy.

COUNCILWOMAN TARKANIAN questioned if there may be a possibility to tap into more BAB's funding. MR. VINCENT indicated that the congressional delegation would like the City to be able to get more, noting that five BAB's have already been issued in Nevada.

MR. VINCENT explained for COUNCILMAN REESE that North Las Vegas funded its new city hall through general obligation bonds issued about 23 years ago that are just being used to construct its building. The smaller bonds were sold before the recession started.

Regarding the COP's/BAB's slide, COUNCILMAN BARLOW asked if the $86 million in ARRA interest tax credits would be guaranteed. MR. VINCENT replied that if bonds are issued and the requirements of the U.S. Treasury are met, he has no doubt that the bonds would qualify. The credits would have to be applied for every year, and that would be arranged through a trustee. He strongly felt that it would pose minimal risk. MR. ADAMS explained that the aforementioned scenario is beyond what staff has applied for and not part of the Recovery Act. It would come out of the U.S. Treasury; therefore, the credits would have to be applied for every year, tantamount to applying for a grant. MR. VINCENT pointed out that the credit would be higher in the earlier years, about $4 million annually on the interest rebate.

In going over the "Hold" Option Slide, MR. VINCENT expressed his belief that the nation has bottomed out and Las Vegas should bottom within the next 12 months. The fear of not being able to obtain a low enough rate was lessened with the option for BAB's. It is now a matter of timing in order to take advantage of the low rates available through BAB's. He pointed out that the time has never been better to do catalytic work to spark development.

MAYOR GOODMAN stressed that the Councilmembers are committed to help create jobs, which is one of the main responsibilities of municipalities.

COUNCILWOMAN TARKANIAN asked if the City could ensure that the employees would be hired from the surrounding community, because it is important to help the local economy. MAYOR GOODMAN agreed with COUNCILWOMAN TARKANIAN'S concern that everything possible should be done to secure jobs for local residents, even when it comes to construction of the new City Hall. He directed the City Attorney's Office to explore that possibility.

Regarding the point about the risk of pledging future General fund monies, COUNCILWOMAN TARKANIAN asked if General funds would be used only as an advancement that would be paid back. MR. VINCENT responded in the affirmative, adding that the concept would be that the debt would be carried in the short term. Staff feels strongly that RDA tax increment revenues will become available to pay for it. COUNCILWOMAN TARKANIAN stressed that it is important to inform the public that expenditures have to be monitored. The City has already loaned $5 million from the General fund to do the design work, and she expects that loan to be paid back.

MR. ADAMS asserted that an interlocal agreement between the City and the RDA will come back for approval that will stipulate that new tax increment monies that become available will be earmarked for repaying the new City Hall debt. He noted that three of the City-owned sited are tax exempt. The only site on the rolls is the Live/Work site.

COUNCILMAN BARLOW questioned the anticipated grand total that will be coming from the General fund for the City Hall project, noting that a 30-year loan could potentially amount to over $300 million. MR. ADAMS indicated that the issue going forward will be how much of the payment will be paid by the City. Staff believes that by allowing an eight-year window, the total will be paid by tax increment monies derived from one of the planned projects. MR. VINCENT rejoined that if the City does not seek refinancing at the end of the ten-year period, the total would end up being over $330 million, because it is all back-end loaded. MR. ADAMS pointed out that with RDA revenues having tripled over the last seven years, the RDA base would only have to increase by 50 percent at the time of refinancing to cover the remaining balance.

COUNCILMAN ANTHONY expressed his appreciation to staff for its candor in presenting this matter. To him, the new City Hall started as an RDA project, but that is not the case today, and it could put the General fund at risk to cover the costs. A risk he could not reconcile with having to tell department directors that vacant positions will not be filled and directing them to cut 12 percent of their budget. It does not make sense. Amid the uncertainty, the only certainty is that the City has an existing City Hall building that only requires operating funds.

Being that the project is contingent on the land swap with Forest City and with so many developers, including the Symphony Center developer, asking for more time to complete projects, COUNCILMAN ANTHONY asked for the worse-case scenario should Forest City need more time or no other developer is interested in parcel P-Q. MR. ADAMS referred to Slide 18 and explained which parcels are involved in the land swap with Forest City.

MR. ADAMS then explained how the land swap came about. The City did not want to purchase a site to build a new City Hall. Consequently, the equity in City land was used in exchange for another site. So the land is not being financed; land is being swapped to build City Hall. Appraisals valued the City's parcel at $40 million and Forest City's at $33 million. The $7 million difference will be secured through a land covenant, obligating the successor to build a casino/hotel on the land. The land exchange will not occur until the completion of the City Hall building. Thereafter, Forest City will have five years to develop parcel P-Q. At the end of that five-year period, Forest City has another two-year period to negotiate a reasonable development alternative with the City. If nothing is negotiated, the City could re-purchase the land. The worse-case scenario is that the land will be owned by a bank, in which case the City, because of the covenant, would still be able to oversee development on parcel P-Q.

COUNCILMAN WOLFSON confirmed with MR. ADAMS that he does not anticipate any change in the interest rates. He then stated that because the Council is expected to vote on this matter within 6-8 weeks, he would like staff to do the following: 1) provide each Councilmember with a copy of the PowerPoint; 2) provide at the time this matter is voted on an aerial of the parcels involved so that the Council and the public can visualize the exchange; 3) report on the possible impact of the taking of monies from municipalities at the upcoming special legislative session and future legislative sessions; 4) report on what would happen should Forest City, although very sound, go bankrupt.

COUNCIMAN REESE informed COUNCILMAN WOLFSON that although the Minami site it was never developed as planned, the City came out ahead by making about $4 million from the site.

COUNCILMAN ANTHONY questioned a clause regarding taking monies from the Fiscal Stabilization Fund, which was created to have emergency monies in reserve. Without remembering the specific numbers, MR. VINCENT explained that the five-year forecast was planned as if the City would have to pick up the cost of the City Hall building. But even without a new building and prudence, the fund will have to be drawn down to about $20 million to minimize impact to the budget. The model given shows that about $24 million would be left after paying the $5 million design fee. The idea being that by the time full payment comes due, there will be sufficient tax increment monies coming in to cover the costs.

COUNCILMAN WOLFSON advised MR. VINCENT that although the Council has full discretion in this matter, he will be looking to him for his recommendation and the reason for it, as well as the pros and cons fully explicated.

After a brief interruption of this matter to reconsider Item 54, discussion resumed and COUNCILMAN REESE emphasized that a new City Hall is part of making sure that the City follows through on its commitment to redevelop Downtown Las Vegas. Although it is a gamble, he felt confident that everything will turn out as planned.

MAYOR GOODMAN stated that this is only a small cell of the vision. Nobody thought the 61 acres would ever have value or be developed as it has. Yet it is a testament to the City's success. He understands that as a government entity, the City is charged with making sure the community is steered in the right direction, but every decision is not based on dollars and cents. There was so much doubt when consideration was being given to the development of the Cleveland Clinic, the Lou Ruvo Brain Institute, the academic centers and Symphony Park. To get things done, the City Council cannot be intransigent; it has to be fluid and resilient.

The Mayor opined that the biggest mistake might have been not to raise property taxes. He strongly believes the City is headed in the right direction, because even low interest rates have become available with funding through BAB's. If the City is going to continue to move forward, the Councilmembers have to have confidence in the future.

See Item 54 for related discussion.